BROOKS MACDONALD

Monthly market commentary

June 2024

- Global equities rose further in June as easing pricing pressures and an interest rate cut by the European Central Bank (ECB) increased optimism about the prospects for looser monetary policy in major developed markets. Continued excitement about Generative Artificial Intelligence (AI) supported the gains, although on-balance hawkish messaging from the US Federal Reserve (Fed) caused some jitters, as did political turmoil in France. Oil prices initially fell to a near four-month low, although they recovered as worries about the demand outlook moderated.
- UK stocks fell marginally during June, but remained reasonably close to the record all-time highs reached back in May. In the UK, politicians continued to campaign ahead of a 4 July general election. The Bank of England (BoE), which kept interest rates on hold, hinted that it could start to ease borrowing conditions in August. Annual inflation[1] hit the BoE's target for the first time since 2021, slowing to 2.0% in May from 2.3% in April, although services inflation was higher than predicted at 5.7% year-on-year in May. First-quarter Gross Domestic Product (GDP) growth[2] was upgraded to 0.7% from a prior reading of 0.6%, while the unemployment rate[3] edged up to 4.4% in the three months to the end of April. Sterling weakened against the US dollar in June. We have a positive outlook for UK equities. The UK value exposures that we seek, including resources and financials exposure at an index level provide an important foil to our growth exposures in other asset classes and regions globally.
- US equities increased on continued interest in Generative AI and as a slowdown in consumer price rises raised investor hopes that the Fed would soon loosen monetary policy. The gains came despite indications from the Fed that it expected to cut interest rates only once this year, rather than three outlined previously. Inflation[4] of 3.3% year-on-year in May was down from 3.4% in April. Jobs growth was unexpectedly robust in May, while the unemployment rate rose slightly. The US dollar strengthened against a basket of currencies during the month, in part reflecting higher polling odds of a Trump win in US elections in November after a weak TV debate performance from President Biden in late June. A Trump presidency, if it comes to pass, would likely see incremental inflationary pressures given Trump's expected policy choices of unfunded tax cuts, and bigger budget deficit spending. We have a positive outlook for US equities. We increased our exposure to US Small and MID cap (SMID) equity earlier in the year, seeking to take advantage of a relative valuation derating versus larger capitalised companies post pandemic, skewed by a handful of mega-capitalised technology companies that dominate US equity indices. Our US equity weights also support our longer-term investment themes of technology, healthcare, and decarbonisation which the US has exposure to at an aggregate equity index level.
- European markets initially gained as the ECB announced its rate cut, although they were lower overall after French President Emmanuel Macron called a snap election. Marine Le Pen's far-right National Rally (NR) party won the first round of voting on 30 June comfortably, but ahead of a second round of voting to come on 7 July, expectations were that the NR party would fall short of an outright majority, thus curtailing some of the NR's more extreme policy ambitions. Nonetheless, investors remained concerned about the outlook for any change in fiscal policies and the prospect of political instability in France, as well as the knock-on effects on the wider region. The euro weakened against both sterling and the US dollar in June. We have a neutral outlook for Developed Europe (excluding UK) equities. While structural tensions between euro area monetary union versus fiscal and political sovereignty remain, these concerns are now balanced by the relatively more constructive medium-term outlook and valuations that we see.
- Japanese shares were largely unchanged as the yen sank further against the US dollar, hitting a 38-year low. The yen's weakness, which boosted Japanese exporters, largely reflected the differences in the monetary policies of the Bank of Japan (BoJ) and the Fed. The BoJ announced in June that it would reduce the size of its massive monthly bond-buying programme, although it made no changes to interest rates. Japan's annual so-called 'core-core' inflation rate[5], which in Japan excludes both fresh food prices as well as fuel costs, fell for the ninth month in a row, to 2.1% in May, its lowest annual reading since September 2022. We have a neutral outlook for Japan equities. Balancing hopes for better corporate governance and capital allocation, Japan nonetheless still has well-documented structural headwinds, including high public debt levels and a declining and aging population.
- Asia-Pacific equities (excluding Japan) strengthened, in aggregate, though this disguised disparate performance across countries within the region. Chinese shares declined amid continued worries about the health of the property sector. India's market sold off early in the month

---

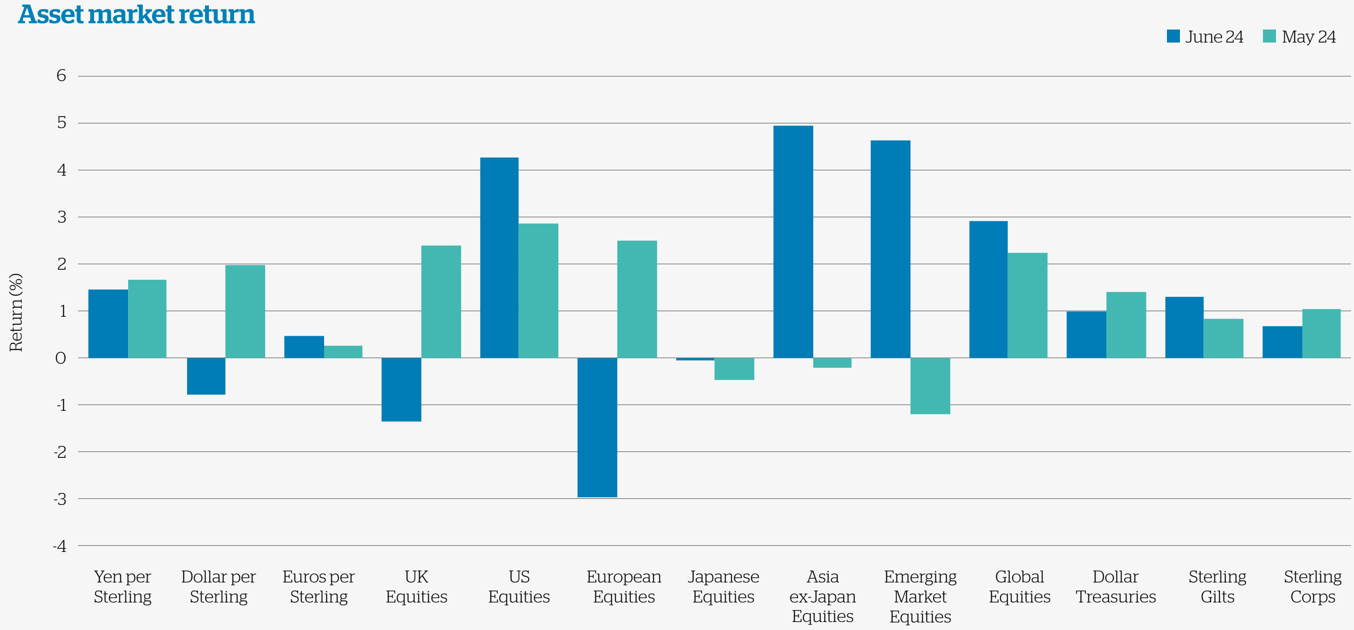
[1] UK Office for National Statistics (ONS), 19 June 2024 (https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2024)
[2] ONS, 28 June 2024 (https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2024)
[3] ONS, 11 June 2024 (https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment)
[4] US Bureau of Labor Statistics, 12 June 2024 (https://www.bls.gov/news.release/cpi.nr0.htm)
[5] Reuters. Article dated 20 June 2024. https://www.reuters.com/world/japan/japans-may-core-inflation-perks-up-keeps-rate-hike-prospect-intact-2024-06-20

as Prime Minister Narendra Modi's party unexpectedly fell short of a parliamentary majority following this year's general election. However, Indian stocks rebounded – and the main blue-chip indices hit record highs – as fears about political uncertainty eased. The South Korean and Taiwanese markets were buoyed by a Generative AI-led technology rally. We have a neutral outlook for Asia Pacific (excluding Japan) equities. We took steps earlier in the year to largely close out our relative-to-benchmark overweight to China, and in doing so, reducing our broader overweight to the wider Asia Pacific ex-Japan region. Regarding China specifically, which is close to a one quarter-weight of the MSCI Asia Pacific (excluding Japan) Index, while Chinese equities appear relatively attractively valued on a 12-month forward Price-to-Earnings Per Share (PE) basis, we see this as a potential 'value-trap' rather than a 'value-opportunity'.

/ Emerging markets experienced mixed performance in June. Brazilian stocks fell as investors fretted about the government's spending plans, although GDP rebounded in the first quarter. South African shares increased strongly as the African National Congress formed a coalition government with the business-friendly Democratic Alliance following May's general election. Turkey's market was little changed, although inflation continued to soar. We have a negative outlook for emerging market equities, reflecting our downshift in view on China earlier in the year (which is around a one quarter-weight of the MSCI Emerging Markets Index), we also made selective cuts to emerging market equity allocations at the start of 2024. Another headwind, US dollar strength has continued to be a theme so far in 2024 which serves as a reminder of the challenges for dollar-denominated debt and investment flows into the emerging markets region more broadly.

/ Yields on core government bond markets mostly declined in June. The yield on US benchmark 10-year treasuries fell (prices rose, reflecting their inverse relationship) as investors readied for interest rate cuts, putting them at odds with the Fed's expectations. The yields of UK 10-year gilts and German 10-year bunds also declined, although the yield on the equivalent French government bonds increased sharply due to political uncertainty in the country. In corporate debt, US investment-grade spreads widened, while US high-yield spreads were fractionally wider. Within fixed income, to manage interest rate sensitivity we have maintained a short-duration fixed income positioning, with a preference for shorter dated weighted-average maturities. We have an equal balance between sovereigns compared to corporate credit. Within credit, we prefer investment grade over high yield however, we are wary that the yield premium for the latter is not in our view providing sufficient reward for the additional risk inherent. In summary, we are keen for our fixed-income exposures to provide a counterbalance to the equity risk that we have elsewhere in our asset allocation mix.

Asset market return



Sterling-denominated market performance, total return performance figures. Past performance is not a reliable indicator of future results. Source: Bloomberg, MSCI: please see important information. Data from 31.05.24 to 30.06.24.

Important information

The performance indicated for each sector should not be taken as an expectation of the future performance. Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Investors may not get back the amount invested. Past performance is not a reliable indicator of future results. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

Investors should be aware of the additional risks associated with funds investing in emerging or developing markets. The information in this document does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Brooks Macdonald is a trading name of Brooks Macdonald Group plc used by various companies in the Brooks Macdonald group of companies. Brooks Macdonald Group plc is registered in England No 04402058. Registered office: 21 Lombard Street London EC3V 9AH.

Brooks Macdonald Asset Management Limited is regulated by the Financial Conduct Authority. Registered in England No 03417519. Registered office: 21 Lombard Street London EC3V 9AH.

Brooks Macdonald International is a trading name of Brooks Macdonald Asset Management (International) Limited. Brooks Macdonald Asset Management (International) Limited is licensed and regulated by the Jersey Financial Services Commission. Its Guernsey branch is licensed and regulated by the Guernsey Financial Services Commission and its Isle of Man branch is licensed and regulated by the Isle of Man Financial Services Authority. In respect of services provided in the Republic of South Africa, Brooks Macdonald Asset Management (International) Limited is an authorised Financial Services Provider regulated by the South African Financial Sector Conduct Authority. Registered in Jersey No: 143275. Registered office: Third Floor, No 1 Grenville Street, St Helier, Jersey, JE2 4UF.

More information about the Brooks Macdonald Group can be found at www.brooksmacdonald.com

BROOKS MACDONALD